No. 81-11

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IN THE

Supreme Court of the United States

October Term, 1981

DARBY DRUG CO., INC., INWOOD LABORATORIES INCORPORATED, MD PHARMACEUTICAL COMPANY, INC., PREMO PHARMACEUTICAL LABORATORIES, INC., RUGBY LABORATORIES, INC., and SHERRY PHARMACEUTICAL CO., INC.,

Petitioners,

v.

IVES LABORATORIES, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Second Circuit

BRIEF OF PETITIONERS DARBY DRUG CO., INC., MD PHARMACEUTICAL COMPANY, INC., RUGBY LABORATORIES, INC., AND SHERRY PHARMACEUTICAL CO., INC. ON THE MERITS

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Questions Presented

1. Whether the exclusive use of a color can be granted to a single drug company for use on the surface of standard capsules containing an unpatented prescription drug product.

2. Whether the grant of an injunction prohibiting the copying by generic drug companies of the appearance (color, size and shape) of standard drug capsules containing unpatented chemicals, violates the doctrine favoring free competition among unpatented, uncopyrighted products articulated in *Sears* and *Compco*.

3. Whether a party selling a generic copy of an unpatented, uncopyrighted prescription drug product is guilty of contributory trademark infringement if he could "reasonably anticipate" that some druggists would sell the generic copy using the trademark of the originator on the prescription bottle; or whether proof of complicity with, suggestion to or knowledge of the activities of the wrongdoer is necessary to support liability under the doctrine of contributory trademark infringement.

4. Assuming a manufacturer or wholesaler is guilty of contributory trademark infringement based on the illicit use of a trademark by a retailer, can the court, as a remedy, prohibit the manufacturer or wholesaler from copying the appearance of the product; or, should injunctive relief be limited to labeling requirements, notification to retailers, prohibition of illegal conduct and similar remedies that do not prohibit (a) copying the originator's unpatented, uncopyrighted product and (b) informing customers of the availability of the copy at a lower price.

Statement Pursuant to Supreme Court Rule 28.1

Petitioner, Darby Drug Co., Inc., is the parent company of petitioners, Rugby Laboratories, Inc. and Sherry Pharmaceutical Co., Inc.

Barth-Spencer Corporation is a wholly owned subsidiary of petitioner, Darby Drug Co., Inc.

Carlisle Laboratories, Inc. and Modern Wholesale Drug Co., Inc. are affiliates of petitioner, Darby Drug Co., Inc.

All of the above named corporations were formed and are existing under the laws of the State of New York.

American Vitamin Company, a California corporation, is an affiliate of petitioner, MD Pharmaceutical Company, Inc.

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Opinions Below

There are five opinions below, four of which have been officially reported. They are:

(a) The opinion of the United States District Court for the Eastern District of New York, denying the Respond-

ent's motion for a preliminary injunction. 455 F. Supp. 939 (1978) (*Ives I*)

(b) The opinion of the Court of Appeals for the Second Circuit affirming the District Court's denial of Respondent's motion for a preliminary injunction. 601 F.2d 631 (1979) (*Ives II*)

(c) The opinion of the United States District Court for the Eastern District of New York dismissing the Respondent's complaint after trial. 488 F. Supp. 394 (1980) (*Ives III*)

(d) The opinion of the Court of Appeals for the Second Circuit reversing the District Court's dismissal of the Respondent's complaint and remanding the case to the District Court. 638 F.2d 538 (1981) (*Ives IV*)

(e) The memorandum opinion and order of the United States District Court for the Eastern District of New York dated May 12, 1981, issued pursuant to the mandate of the United States Court of Appeals for the Second Circuit (78 Civ. 372) are unreported. (*Ives V*) They are set forth in Appendix F of the Appendices to the Petition for Certiorari filed herein. (Said appendices are referred to herein as "Pet. App.")

Jurisdiction

The judgment of the United States Court of Appeals for the Second Circuit was entered on January 8, 1981, and an order of said court denying Petitioners' petition for rehearing was filed on February 25, 1981.

The jurisdiction of the United States Supreme Court is invoked under the provisions of Title 28, United States Code, §1254(1).

Constitutional Provisions and Statutes Involved

United States Constitution:

Article I, Section 8, Clause 8

First Amendment

The statutes which this case involves are as follows:

The Lanham Trademark Act of 1946 (herein "The Lanham Act"):

§32, 15 U.S.C. §1114
§43(a), 15 U.S.C. §1125(a)

New York Education Law (McKinney's):

§6810
§6815 (2) (h) and (j)
§6816
§6816-a

New York Public Health Law (McKinney's):
§206 (1)(o)

These statutes are set forth in Appendix G, Pet. App.

Statement of the Case

a. Jurisdiction and Procedural Background

The federal courts have jurisdiction of this case pursuant to 28 U.S.C. §§1331 and 1338. (Pet. App. 56a)

The Respondent, Ives Laboratories, Inc. ("Ives"), which makes and sells the prescription drug cyclandelate

under the trademark Cyclospasmol brought this action seeking an injunction and related relief against Petitioners (sometimes referred to herein as defendants) who make and sell cyclandelate under its generic name, based upon claimed violations of §§32 and 43(a) of the Lanham Act (15 U.S.C. §§1114 and 1125(a)) and the New York State law of unfair competition. Ives sought a preliminary injunction which was denied by the district court (*Ives I*, Pet. App. 1a). The denial of a preliminary injunction was affirmed by the Court of Appeals for the Second Circuit. (*Ives II*, Pet. App. 28a). The district court dismissed the complaint after trial (*Ives III*, Pet. App. 56a) and Ives appealed. The appellate court reversed the district court's dismissal of the complaint (*Ives IV*, Pet. App. 71a) and remanded the case to the district court with a mandate to grant relief consistent with the opinion of the appellate court. On remand, the district court granted Ives an injunction, damages, defendants' profits and a recall of defendants' product. (*Ives V*, Pet. App. 96a)

Petitioners seeks review of the judgment of the Court of Appeals for the Second Circuit which reversed the trial court's dismissal of Ives' complaint.

b. Factual Background

The drug cyclandelate, a white powder, is a peripheral vasodilator claimed to produce an increase in blood flow and thereby inhibit the progressive conditions caused by certain vascular diseases which tend to occur in the aged. Cyclandelate is therefore prescribed for a long period of time, generally for the rest of the patient's life. For some years, Ives, its predecessors and its parent company,

American Home Products Corporation, have sold the drug under the mark Cyclospasmol and, until the patent on cyclandelate expired on April 26, 1972, had the exclusive right to make and sell the drug in the United States. Ives has been marketing 200 mg. dosages in a pale blue capsule imprinted "Ives 4124" since 1962, and 400 mg. dosages in red and blue capsules imprinted "Ives 4148" since 1975. (Pet. App. 56a-57a)

Because the drug may be dispensed only on prescription, Ives has directed its promotion primarily to physicians. Some 230 salesmen called "detail" men have made personal visits to doctors and distributed samples and promotional materials. (Pet. App. 57a)

Of the defendants, three are manufacturers: Premo Pharmaceutical Laboratories, Inc. ("Premo"), Inwood Laboratories, Incorporated ("Inwood"), and MD Pharmaceutical Company, Inc. ("MD"). All three purchase cyclandelate and empty capsules, and assemble the product for sale to wholesalers and hospitals. Inwood and MD also sell to retail pharmacies. Premo and Inwood sell 200 mg. and 400 mg. capsules in colors identical to those used by Ives. MD does the same with 200 mg. capsules. Defendants, Darby Drug Co., Inc., Rugby Laboratories, Inc., and Sherry Pharmaceutical Co., Inc. (collectively "the wholesalers") purchase capsules of the kind made by the manufacturers and sell them primarily to physicians and pharmacies. (Pet. App. 57a)

The defendants promote their generic product as comparable, similar or equivalent to Cyclospasmol in price lists

and catalogs distributed to their customers.* Defendants do not utilize salesmen or "detail" men who visit their customers, as does Ives. Some of defendants' catalogs refer to the color of the capsules. Defendants' names appear on their packages of cyclandelate capsules. (Pet. App. 57a, 58a)

The defendants' cyclandelate and Ives' Cyclospasmol are delivered to pharmacists in bottles containing the name of the product and the name of the seller. Ives bottles identify its cyclandelate with the brand name Cyclospasmol. The bottles are opened by the pharmacists and the capsules transferred to smaller containers which bear the pharmacists' own label and are dispensed to consumers. (Pet. App. 58a)

The New York Education Law defines a pharmacist's obligations in dispensing prescription drugs. The relevant provisions require a doctor's prescription form to state that it will be filled with a generic product unless the doctor prescribes by brand name and signs the form over the line stating "dispense as written". (Education Law §6810(6)) If the doctor signs over the other signature line on the prescription form, which reads "substitution permissible," the druggist must dispense a less expensive drug having the same active ingredients, provided that drug appears on a list maintained by the State for such purpose. (Education Law §6816-a(1)) If the drug is not on the list, the druggist may, but is not required to, substitute the less expensive generic drug. (Pet. App. 58a)

* There was no proof at trial that defendants' cyclandelate had any different therapeutic effect than Ives' Cyclospasmol brand cyclandelate, and that was not an issue in the case.

The label placed on the bottle by the druggist must contain the brand name of the drug, if it has one, or the generic name and the name of the manufacturer. (Education Law §6816-a) Therefore, a druggist dispensing Ives' Cyclospasmol brand cyclandelate must put "Cyclospasmol" on the label. However, if cyclandelate as sold by the defendants is dispensed, the label must state the word "cyclandelate" and the name of the manufacturer (e.g., "cyclandelate Premo"). (Pet. App. 58a)

Violation of the Education Law subjects a pharmacist to criminal law penalties and loss of his license. (Education Law §6816(1)(a)) (Pet. App. 116a, 117a)

c. Capsule Colors Are Not an Ives Trademark.

Ives claimed that the defendants use of look-alike capsules constituted a false designation of origin in violation of Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a). The trial court rejected this contention on two grounds. Firstly, the trial court found the colors to be functional and therefore not entitled to trademark protection. (Pet. App. 63a) Secondly, the court noted that even if the colors were not functional, Ives failed to show that they acquired secondary meaning, i.e., Ives did not demonstrate that patients identified the capsule colors with the source of the medication. (Pet. App. 64a) There being no showing that capsule colors designate origin, the use of look-alike capsules by the defendants did not constitute a false designation of origin under §43(a). The finding by the trial court was not discussed or reversed by the court of appeals. (*Ives IV*, Pet. App. 71a)

d. The Charge of Contributory Trademark Infringement

Ives claims that a significant number of pharmacists palm-off defendants' cyclandelate capsules in filling prescriptions for Cyclospasmol, and use Ives' trademark "Cyclospasmol" on the labels of bottles containing generic cyclandelate. Ives also claims that a significant number of pharmacists mislabel generic cyclandelate as Cyclospasmol when filling prescriptions calling for generic cyclandelate. Such a misuse of Ives' trademark, Cyclospasmol, by pharmacists engaging in the practice of illegal substitution and mislabeling would constitute a violation of §32 of the Lanham Act (15 U.S.C. §1114).

Ives makes no claim against the offending pharmacists, but charges that the defendants contribute to those forms of trademark infringement by selling cyclandelate in capsules that are blue and blue/red, similar in appearance to Cyclospasmol capsules, and by promoting the sale of generic cyclandelate in catalogs and price lists stating defendants' product to be equivalent to Cyclospasmol. Ives claims that these activities alone constitute contributory trademark infringement making the defendants violators of §32 of the Lanham Act. *Ives IV*, 638 F.2d 538, 540. (Pet. App. 76a) There was no evidence that any defendant suggested illegal substitution or mislabeling to any pharmacist. In fact, defendants have no salesmen or "detail" men who visit pharmacies and were not shown to have knowledge of, or reason to know of, any pharmacist engaging in illegal substitution or mislabeling. *Ives III*, 488 F.Supp 394, 397 (E.D.N.Y. 1980). (Pet. App. 59a)

The only other evidence presented by Ives to support its claim of contributory trademark infringement was (a) the results of a nationwide shopping investigation which disclosed only fifteen instances of illegal substitution, and (b) the results of a New York State survey which showed that ten pharmacists out of 83 mislabeled the product by using the name Cyclospasmol on bottles containing generic cyclandelate. *Id.* (Pet. App. 59a-60a)

The fifteen instances of illegal substitution were obtained in an uncontrolled nationwide investigation conducted by Ives' employees and "detail" men. The "detail" men were instructed to submit prescriptions for Cyclospasmol to pharmacies which Ives knew had a propensity to palm-off generic products for expensive band name products. (Pet. App. 60a)

The ten instances of mislabeling were obtained in a survey involving prescriptions for Cyclospasmol signed on the line stating "substitution permitted" which were submitted to 83 pharmacists. Ten pharmacies mislabeled the generic product by using the word Cyclospasmol on the label, however, five of these also indicated on the label that a generic form of Cyclospasmol was being dispensed, by using the phrase "generic Cyclospasmol" or the like.* Nine of the ten pharmacies which mislabeled, informed the pur-

* While a pharmacist's placing of Ives' trademark "Cyclospasmol" by itself on the label of a bottle containing generic cyclandelate would constitute a trademark violation, the use of the words or phrase "generic Cyclospasmol" on the label is a true statement and therefore not a trademark violation. *Smith* v. *Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968). However, such a phrase when used on the label of a prescription bottle would violate the technical requirements of New York's drug substitution law (which requires the generic capsules to be labeled with the generic name, cyclandelate, and the name of the generic drug manufacturer.) N.Y. Education Law §6816-a(1)(c).

chaser that generic cyclandelate was being dispensed, and only one pharmacy appeared to have charged the higher Cyclospasmol price for the generic product. (Pet. App. 60a)

Although it was conceded by most of the defendants that using look-alike capsules could facilitate illegal substitution of a generic product by pharmacists having a desire to engage in such activity, there was no other evidence to connect the use of look-alike capsules to the instances of substitution or mislabeling described above.

With respect to the question of whether illegal substitution of generic products for brand name products was a widespread practice, the President of the New York State Pharmaceutical Society, called as a witness by Ives,** testified that he did not believe the practice to be widespread. *Ives IV*, 638 F.2d at 545. (Pet. App. 85a)†

The testimony of three doctors and two pharmacists called as witnesses for the defense showed that the color of drug capsules used in connection with long-term, maintenance medication relieves patient anxiety by assuring the patient that he is receiving the same medication he has previously received, avoids confusion among patients who take various types of medication in a single day, aids communication between doctors and patients in discussing the

** The error in the printed opinion, referring to Mr. Lawler as defendants' witness, has been corrected.

† Even in the few instances where illegal substitution occurs, the patient pays no more than he would if the brand name drug were dispensed. The difference is, the druggist makes the excess profit rather than Ives. As conceded by Ives, the patient is getting equivalent medication.

effects of medication and instructions for its use, and aids in identifying medication consumed by patients in emergency situations. Several witnesses, including one of the pharmacists referred to above and a businessman employed by a generic drug company, testified to the difficulty in marketing generic products which differed in appearance from the brand name product containing the same active ingredient. Such generic products which differ in appearance from the related brand name product are not readily accepted in the marketplace.* The trial court made a factual finding that the colors of the drug product were functional, based upon the testimony described above. *Ives III*, 488 F.Supp. at 398-399. (Pet. App. 63a)

The evidence presented by defendants that capsule colors are functional is related to Ives' charge of contributory trademark infringement under §32 of the Lanham Act (15 U.S.C. §1114). Such evidence belies Ives' claim that the use of look-alike capsules was undertaken by the defendants for the purpose of suggesting illegal substitution and mislabeling to pharmacists.

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* Ives claims that some generically identical drugs are sold in different colors, thus disputing defendants' contention that the colors are "an important ingredient of the commercial success of the product . . ." (See *Pagliero* v. *Wallace China Co.*, 198 F.2d 339, 343 (9th Cir. 1952) cited by Judge Friendly in *Ives II*, 601 F.2d 631, 643, regarding a definition of functionality.) Ives' claim does not withstand analysis. Some drug companies compete primarily by product differentiation. For that reason they adopt different capsule colors and trade names even when they sell identical products. Defendants compete differently by seeking to equate their drug products with the innovator and to compete on the basis of price. This is a form of competition as legitimate as that of drug companies that differentiate their products, and results in lower prices while differentiation tends to maintain higher prices. The use of identical color is part and parcel of the legitimate effort of generic drug companies to equate their products with the market leaders in every way, except for price.

Summary of Argument

1. The Second Circuit in *Ives IV* granted Ives a perpetual monopoly of the color blue and the blue/red combination in connection with the sale of cyclandelate in standard size capsules. The grant of a color monopoly for use in connection with an unpatented, uncopyrighted product violates long standing precedent against the creation of perpetual, unregulated, judge-made monopolies regarding color. This case is a prime example of the importance of the principle that color should not be monopolized by a single company, since the granting of such a monopoly in the case at bar creates a serious impediment to the ability of the defendants to compete with Ives regarding the sale of cyclandelate.

2. The doctrine enunciated by this Court in the *Sears* and *Compco* cases is applicable to the case at bar. That doctrine, which permits the copying of unprotected features of an article in commerce, was violated by the injunction ordered by the Second Circuit in *Ives IV*, since that injunction prohibited the copying of the color, size and shape of Ives' cyclandelate capsules. The prohibition against copying cannot be justified under the exception contained in *Sears* and *Compco* regarding the imposition of labeling and trade-dress requirements, since the color of prescription drug capsules is not labeling or trade-dress.

3. The Second Circuit in *Ives IV* impermissibly expanded the doctrine of contributory trademark infringement in order to find the defendants liable under that doctrine. Prior to *Ives IV*, a finding of contributory trademark infringement required that defendants suggest

palming-off or continue to sell a copy of the trademark product to a retailer with knowledge that the retailer was palming-off the copy for the original.

The Second Circuit in *Ives IV* extended that doctrine to find defendants liable if they could "reasonably anticipate" that a substantial number of retailers would palm off the copy for the original. Although there was no evidence that the defendants in this case knew of any druggist who was palming-off their generic product for Ives' brand name product, nor any finding of a suggestion on the part of the defendants that druggists engage in such palming-off, the Second Circuit found the defendants guilty of contributory trademark infringement on the basis of "reasonable anticipation" that such conduct would occur. This unprecedented expansion of the doctrine of contributory trademark infringement was improper and, if permitted to continue, will have a chilling effect on competition, by holding copiers liable for the wrongdoing of others despite the fact that the copiers do nothing but sell their copies at a lower price than the originals, and inform their customers of the availability of such products.

4. Even if, *arguendo,* the defendants were properly found to be contributory trademark infringers, the remedy imposed by the Second Circuit in *Ives IV* was unwarranted and improper. The remedy in such a case should be limited to labeling requirements and warnings to pharmacists against the practice of palming-off, rather than the prohibition of copying the color of the product. Such limited remedies would not impede competition or prevent patients from obtaining the product in the familiar and useful colors at the lower generic price.

ARGUMENT

POINT I

The Grant of a Perpetual Monopoly of Color to Ives for a Drug Product Should Be Reversed.

The Second Circuit has granted Ives a perpetual monopoly of the color blue and the blue/red combination in connection with the product cyclandelate. This result is in direct conflict with the law, recognized for decades by the federal courts, that color alone cannot become the exclusive property of anyone.

At the beginning of this century, the Supreme Court stated:

> "Certainly a trade-mark could not be claimed of a rope, the entire surface of which was colored. . ." *A. Leschen & Sons Rope Co.* v. *Broderick,* 201 U.S. 166, 170-171 (1906)

Courts have consistently held that color, by itself, cannot be registered under the provisions of the Lanham Act. "[T]he mere coloration of the various panels of the ordinary basketball is not sufficiently distinctive to be the subject of a statutory trademark." *American Basketball Assoc.* v. *A.M.F. Voit,* 358 F. Supp. 981, 985 (S.D.N.Y.), *aff'd without op.,* 487 F.2d 1393 (2d Cir. 1973), *cert. denied,* 416 U.S. 986 (1974). "Colors or colors used as mere surface decoration cannot be monopolized by a claim to trademark rights therein." *Plastilite Corp.* v. *Kassnar Imports,* 508 F.2d 824, 826 (C.C.P.A. 1975). See also *Diamond Match Co.* v. *Saginaw Match Co.,* 142 Fed. 727 (6th Cir. 1906);

Campbell Soup Co. v. *Armour & Co.*, 175 F.2d 795 (3rd Cir. 1949), *cert. denied*, 338 U.S. 847 (1949); IV *R. Callman, Law of Unfair Competition, Trademarks and Monopolies*, § 98.4 (d) at 684 (3rd ed. 1970); Vol. I *J.T. McCarthy, Trademarks and Unfair Competition*, § 7:16 at 178 (1973).

The Second Circuit has itself, in an unfair competition case, rejected a claim that the color of a drug product could become the exclusive property of the innovator.

> "That a color may become someone's exclusive property as a perpetual monopoly in connection with a specific product has been rejected by the courts throughout the years." *Norwich Pharmacal Co.* v. *Sterling Drug Inc.*, 271 F.2d 569 at 572 (2nd Cir. 1959), *cert. denied*, 362 U.S. 919 (1960).

This basic precept against granting perpetual monopolies of color has been recently violated in two separate ways by certain courts. One way is to find that colors are valid trademarks because they have "secondary meaning." *A.H. Robins Co.* v. *Medicine Chest Corp.*, 206 U.S.P.Q. 1015 (E.D. Mo. 1980); *SK & F Co.* v. *Premo Pharmaceutical Laboratories, Inc.*, 625 F.2d 1055 (3rd Cir. 1980); *Boehringer-Ingelheim G.m.b.H.* v. *Premo Pharmaceutical Laboratories, Inc.* (D.N.J. Docket No. 79-0358, Sept. 24, 1980); *Merrel-National Laboratories, Inc.* v. *Zenith Laboratories Inc.*, 194 U.S.P.Q. 157 (D.N.J. 1977), *aff'd on procedural grounds*, 579 F.2d 786 (3rd Cir. 1978). The other is to hold that only by granting an injunction against the use of certain colors by anyone other than the plaintiff can the avoidance of passing-off and mislabeling be achieved. *Ives IV*, 638 F.2d 539. (Pet. App. 71a)

Whether these color monopolies are granted affirmatively by establishing a trademark right in color, or negatively by prohibiting others, as a remedy, from using the colors (without deciding that color is a trademark), the results violate established law and conflict with the federal policy of free competition. See *American Safety Table Co.* v. *Schreiber*, 269 F.2d 255, 271-272 (2nd Cir. 1959).

Defendants proved at trial that there are valid reasons for copying Ives' colors in this case, related to the fact that the colors have become associated with the drug chemistry and its therapeautic effect during the long period of Ives' patent monopoly. As stated in *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111 (1938) where an article may be manufactured by all, a particular manufacturer cannot:

> ". . . assert exclusive rights in a form in which the public has become accustomed to see the article and which in the minds of the public is primarily associated with the article rather than a particular producer. . ." *Id.* at 120.

However, even if appellants did copy Ives' colors without regard to their function, solely to sponge on Ives' good will and to take advantage of Ives' invention and development of the product, copying the colors should not have been prohibited. Obviously, "courts have little sympathy for a willful imitator" (*American Safety Table Co.* v. *Schreiber, supra* at 272); and this has led the Third Circuit to state in a similar context that claims of a copier do not have "the look, sound or feel of equity." *SK & F Co.* v. *Premo Pharmaceutical Laboratories, Inc., supra*, 625 F.2d at 1067. But courts must consider the law in its complexity, and its effect on the public. They should not be swayed by

visceral or subjective reactions to render decisions violative of long standing precedent based on reason and principle. See discussion in *Smith* v. *Chanel, Inc., supra,* 402 F.2d at 568. As stated by the Second Circuit decades ago:

> "[T]he underlying principles of our competitive economy and the desirability of passing on to the American public the advances of technical progress not only are entitled to consideration, in fact they dominate the picture although the interests of the public are not represented by either of the parties to the action. * * * Hence at first glance it might seem intolerable that one manufacturer should be allowed to sponge on another by pirating the product of years of invention and development without license or recompense and reap the fruits sown by another. Morally and ethically such practices strike a discordant note. It cuts across the grain of justice to permit an intruder to profit not only by the efforts of another but at his expense as well. * * *
>
> But this initial response to the problem has been curbed in deference to the greater public good . . . . For imitation is the life blood of competition. It is the unimpeded availability of substantially equivalent units that permits the normal operation of supply and demand to yield the fair price society must pay for a given commodity. *American Safety Table Co.* v. *Schreiber, supra,* 269 F.2d at 271, 272 (citations omitted).

This case is a prime example of the importance of the principle that color cannot be monpolized by an individual or company.

Let us look at what Ives is attempting to do in this case, which explains why the case is so important to the parties and why it is being litigated to the highest court in the

country. For many years, Ives had a patent monopoly over the chemical substance, cyclandelate, and exploited that monopoly by spending millions of dollars (all of which was ultimately passed on to the consumers of Ives' product) to identify its trademark Cyclospasmol and the colors of its capsules with the product itself. Through the use of hundreds of "detail men", and extensive trade advertisements to physicians and pharmacists, Ives was successful in causing doctors, druggists and patients to think of the color blue and the name Cyclospasmol as identifying the drug cyclandelate. This should be no surprise, in view of Ives' effort and expense in making its trademark and the color synonymous with the product itself.*

Now that the patent has expired, Ives seeks to use the identification between the drug and the color of the capsule, which it fostered as described above, to inhibit competition and to extend its monopoly to the fullest extent possible. Clearly, it is difficult, if not impossible, to compete with Ives if that company has the sole use of the colors which people identify with the product.

It is Ives that is attempting to compete unfairly by creating a court-made monopoly; however, using the well known tactic that the best defense is a good offense, Ives charges the defendants with competing unfairly to capture sales made by a few unethical pharmacists who illegally

* It should be noted, however, that this phenomenon did not extend to identifying the source of the product. Prescribers, dispensers and users of 200 mg. doses of cyclandelate merely thought of the drug as Cyclospasmol coming in blue capsules. There is no evidence that they thought blue cyclandelate capsules came from a single source, despite Ives' efforts to produce such proof. The reason for this absence of proof is simple; no one actually thinks of the color as an identification of the manufacturer (or source) of the drug.

pass-off or substitute defendants' product for Ives' product. This charge is reduced to absurdity by Ives' own shopping survey. The fifteen instances of illegal substitution proved by Ives in this case are obviously inconsequential, and Ives' own witness, the President of the New York State Pharmaceutical Society, testified that illegal substitution is not widespread.

The mislabeling of generic cyclandelate as Cyclospasmol in instances where substitution is legal and authorized does nothing to increase defendants' sales since those prescriptions would be filled generically regardless of labeling. Therefore, the possibility of mislabeling cannot be a motivating factor in defendants' decision to copy the colors of Cyclospasmol.

While the few additional sales made by unethical pharmacists are insignificant to Ives and to the defendants, the principle of monopolizing the color of a capsule is extremely important because such a monopoly prevents defendants from marketing a useful product in its standard appearance, i.e., the "form in which the public has become accustomed to see the article . . . ." *Kellogg Co.* v. *National Biscuit Company, supra,* at p. 120.

The case at bar represents a classic illustration of the importance of the principle that color should not be anyone's exclusive property with respect to the marketing of a product. The Second Circuit's decision in this case granting Ives a perpetual, unregulated monopoly of the color blue, and the color combination blue and red, in connection with the sale of the drug cyclandelate should be reversed.

POINT II

The Doctrine Stated in *Sears* and *Compco* Has Been Violated by the Court Below.

Defendants submit that the principle barring monopolies of color is applicable to this case and affords sufficient grounds for reversal of the decision of the Second Circuit which granted Ives such a monopoly. However, there are other grounds for reversing the court below.

One ground is that the decision violates the principles enunciated in *Sears Roebuck & Co.* v. *Stiffel Company*, 376 U.S. 225, 84 S.Ct. 784, 11 L.Ed. 2d 661 (1964) and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, 84 S.Ct. 779, 11 L.Ed. 2d 669 (1964), (*Sears* and *Compco*). The other is the Second Circuit's impermissible extension of the doctrine of contributory trademark infringement. Based upon such extension, the court found Ives entitled to an injunction prohibiting the defendants' copying of Ives' product, copying which previously had been considered "the life blood of competition". *American Safety Table Co.* v. *Schreiber, supra*, 269 F.2d at 272 (See Point III, *infra*).

The landmark companion cases of *Sears* and *Compco* held that state law cannot prohibit the copying of unpatented designs, even if such copying caused confusion among purchasers as to the maker of the product. Problems of confusion or passing-off can be dealt with by labeling requirements, but not by granting perpetual monopolies over unpatented designs. *Sears*, 376 U.S. at 232; *Compco*, 376 U.S. at 238.

These decisions are directly applicable to the case at bar and should prohibit the creation of a perpetual color monopoly for Ives in connection with the color, size or shape of a drug product. Although *Sears* and *Compco* dealt with federal limitations on state unfair competition laws, the basis for the decisions was the Constitutional limitation on the granting of patent monopolies. The reasoning of *Sears* and *Compco* is as applicable to unfair competition claims as to claims brought under state law. Both the federal and state unfair competition laws are limited by the Constitution. Moreover, even if the *Sears* and *Compco* holdings were not constitutionally based, there is nothing in the Lanham Act or its legislative history that indicates Congress enacted a federal law of unfair competition as to palming-off broader than that permissible to the States. *Ives I*, 455 F. Supp. at 946. Thus, the reasoning of *Sears* and *Compco* permits the copying of unprotected features of an article in commerce, and limits the means of preventing palming-off to labeling and precautionary steps other than a prohibition of copying. If this doctrine is salutary, it should apply whether state or federal laws or unfair competition are in issue.

It should be noted that *Sears* and *Compco* did not forge a revolutionary legal doctrine but merely reinforced the longstanding abhorence of federal courts to grant judge-made monopolies which are both perpetual and unregulated. *Cheney Bros.* v. *Doris Silk Corp.*, 35 F.2d 279, 281 (2d Cir. 1929) (per L. Hand, J.), *cert. denied*, 281 U.S. 728 (1930). In *Kellogg Co.* v. *National Biscuit Co., supra*, this Court refused to grant a monopoly of the pillow shape of the shredded wheat biscuit. In *Norwich Pharmacal Company* v.

Sterling Drug Co., supra, the Second Circuit refused to grant a monopoly of the pink color of Pepto Bismol (and reference has already been made to the cases denying claims for color monopolies). In *Wm. R. Warner & Co.* v. *Eli Lilly & Co.,* 265 U.S. 526, 44 S.Ct. 615, 68 L.Ed. 1161 (1924), this Court denied a claim to the exclusive use of chocolate in Coco-Quinine. In *Smith, Kline & French Laboratories* v. *Clark & Clark,* 157 F.2d 725 (3rd Cir.), *cert. denied,* 329 U.S. 796 (1946), a post patent injunction prohibited only palming-off, but not the copying of the shape, color and scoring which the Court found to be functional for amphetamine sulphate prescription drug tablets. In *Upjohn Company* v. *Schwartz,* 246 F.2d 254 (2d Cir. 1957), copying the appearance of a prescription drug tablet was not enjoined despite evidence of defendant's salesmen suggesting illegal substitution; only the unlawful activity was enjoined. Even in *Truck Equipment Service Co.* v. *Fruehauf Corp.,* 536 F.2d 1210, *cert. denied,* 429 U.S. 861 (1967), which distinguished *Sears* and *Compco* in dealing with a Lanham Act §43 (a) claim and granted an injunction against copying the exterior design of a hopper grain trailer, the injunction was later modified to permit copying, to prohibit only deceptive advertising and to require labeling. See *Ives II,* 601 F.2d 642, footnote 14.

Until the recent spate of cases referred to at p. 15 above, protective of the brand name drug industry's competitive position *vis à vis* generic companies, it would seem inconceivable that courts could grant monopolies over the unpatented, uncopyrighted and unregistered color and appearance of an article in commerce. *Sears* and *Compco* are

not revolutionary but are the watershed of those decisions favoring free competition, recognizing that copying is the lifeblood of free competition, *American Safety Table Co.* v. *Schreiber, supra,* and that the avoidance of confusion as to source must be dealt with, not by prohibiting copying, but by requiring adequate labeling, trade dress distinctiveness and similar protective methods that do not unduly limit the right to compete.

The question remains whether an injunction against copying the colors of Ives' product is a permissible labeling or trade dress requirement under the *Sears* and *Compco* doctrine. The District Court, in denying Ives' motion for a preliminary injunction, found that the color of capsules could not be considered trade dress or packaging because the colors are ingested as part of the product. *Ives I.* (Pet. App. 19a) The issue thus becomes one of product simulation permitted by *Sears* and *Compco,* and not a packaging claim for which injunctive relief prohibiting copying may be appropriate.

In addition to the fact that the colors are ingested with the product, the colors do not function as trade dress or labeling. Because the colors are not seen until after the purchase, and the product is not chosen by the consumer, color cannot play any part in affecting consumer choice. In a typical palming-off case, the person making the choice of which product to buy is deceived and his choice diverted from the intended object of his purchase. Such deception is precisely what the Lanham Act sections relied on by Ives are intended to prevent. However, in the prescription drug context the consumer is a patient, and he does not choose

whether to buy a brand name or a generic drug product. The patient's doctor makes that choice, and the doctor is not deceived by color. Nor is the doctor directed to or diverted from choosing a drug manufactured by a particular source by capsule color, as a housewife might be deceived in choosing detergent or breakfast cereal by a confusingly similar package.

While the color of a capsule does serve a function, i.e., to identify the type of drug or the therapeutic effect of the drug,* the color does not function as trade dress or packaging. Relating this fact to *Sears* and *Compco*: if capsule color is not packaging or trade dress, it is not subject to the power to require such precautions as labeling "to prevent customers from being misled as to the source. . ." 376 U.S. at 232, 233; 84 S.Ct. at 789. *Sears* and *Compco* permit copying of articles and their aspects which are unprotected by patent or copyright—and one cannot get in the backdoor to prohibit such copying by the expedient of calling the unpatented, uncopyrighted and unregistered aspect of the product (i.e., capsule color, size and shape) "trade dress", "packaging" or labeling".

The prohibition against copying capsule appearance contained in the Second Circuit's opinion violates the precepts favoring free competition enunciated in *Sears* and *Compco*, and should be reversed.

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* See discussion of function at pp. 11 and 16, *supra*.

POINT III

The Circuit Court Impermissibly Expanded the Doctrine of Contributory Trademark Infringement to Enjoin the Lawful Activity of Petitioners.

As noted above (p. 20), this Court need not reach the issue of contributory trademark infringement to reverse the Circuit Court, because that court's decision violates basic precepts against granting judge-made monopolies over (1) color and (2) any unpatented, uncopyrighted and unregistered feature of an article in commerce. However, defendants submit that the Circuit Court did impermissibly expand the doctrine of contributory trademark infringement to enjoin the defendants' lawful competitive activity and we are constrained to include this point because the dangerous expansion and misapplication of that doctrine is the path which led the Circuit Court to mandate the offensive injunction.

a. Judicial Standard of Contributory Trademark Infringement

In his opinion affirming the initial decision of the District Court (which denied Ives' motion for a preliminary injunction, *Ives I*, 455 F. Supp. 939), Judge Friendly, writing for the Second Circuit, attempted to establish guidelines for determining liability under the doctrine of contributory trademark infringement. *Ives II*, 601 F.2d at 636.

The trial judge had defined contributory trademark infringement as "the knowing and deliberate instigation of

such a practice" (455 F. Supp. at 945). Judge Friendly found that definition too narrow, and defined the doctrine for the edification of the trial court as follows:

> ". . . a manufacturer or wholesaler would be liable under §32 if he suggested, even if only by implication, that a retailer fill a bottle with the generic capsules and apply Ives' mark to the label, or continued to sell capsules containing the generic drug which facilitated this to a druggist whom he knew or had reason to know was engaging in the practices just described. The proper criteria are stated in *Coca-Cola Co.* v. *Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946) (Wyzanski, J.), affd., 162 F. 2d 280 (1 Cir.), cert. denied, 332 U.S. 809 (1947)." 601 F.2d at 636.

In *Coca-Cola, supra,* the plaintiff claimed that the defendant committed contributory trademark infringement because bartenders were substituting defendant's Polar Cola for plaintiff's Coca-Cola when a bar customer would ask for rum (or whiskey) and Coca-Cola. Judge Wyzanski found that defendant knew some customers ordered rum (or whiskey) and Coca-Cola, "and that any man of common sense knows that in any line of business, including, but not emphasizing the business of running bars and taverns, there are some unscrupulous persons who, when it is to their financial advantage to do so, will palm-off on customers a different product from that ordered by the customers." 64 F.Supp. at 988-989. However, the court found that there was no contributory trademark infringement. A reading of Judge Wyzanski's opinion leads to the conclusion that more is needed to make out a case of contributory trademark infringement than proof of sales to a basically law-abiding group with a few bad actors among them—

particularly when the defendants are not notified, and have no way of knowing, which of their customers are doing the palming-off.

After trial in the case at bar, Judge Nickerson considered whether the defendants' actions of selling look-alike capsules to pharmacists, informing customers that their product was an equivalent copy of Ives' product and charging a lower price for the copy, constituted contributory trademark infringement.

Using Judge Friendly's definition, the trial court found that:

> "... defendants did not suggest, even by implication, that pharmacists fill bottles with the generic drug cyclandelate and apply the trademark Cyclospasmol. Nor did Ives show that defendants continued to sell the generic drug to pharmacists who defendants knew or had reason to know were engaging in such practice. 601 F.2d at 636." *Ives III*, 488 F. Supp. at 397. (Pet. App. 59a)

On appeal after trial, Judge Mansfield, writing for a majority of the Second Circuit, reversed this finding of the trial court and found defendants liable for contributory trademark infringement. In doing so, the court revised and expanded the doctrine of contributory trademark infringement:

> "By using capsules of identical color, size and shape, together with a catalog describing their appearance and listing comparative prices of Cyclospasmol and generic Cyclandelate, appellees could *reasonably anticipate* that their generic drug product would by a substantial number of druggists be substituted illegally

> for Ives' trademarked Cyclospasmol or that bottles of their lower priced product might be mislabeled Cyclospasmol, all to the druggist's economic advantage. This amounted to a suggestion, at least by implication, that the druggist take advantage of the opportunity to engage in such misconduct." 638 F.2d at 543 (emphasis added) (Pet. App. 82a, 83a)

The court thus ruled that reasonable anticipation that a substantial number* of druggists will illegally substitute and mislabel, "amounted to a suggestion" by defendants to druggists that they should illegally substitute and mislabel. Defendants submit that such a ruling is an illogical extension of the doctrine of contributory infringement.

The actions which the Second Circuit found to be suggestive to druggists were, until that decision, always thought to be nothing more than good competition—the making of an unpatented item using functional aspects of the competitor's product, and informing customers that the product was the same as the competitor's but lower priced. See *Sears Roebuck & Co.* v. *Stiffel,* 376 U.S. 225, 11 L. Ed. 2d 661, 84 S. Ct. 784 (1964); *Compco* v. *Day-Brite Lighting, Inc.,* 376 U.S. 913, 12 L. Ed. 183, 84 S. Ct. 1162 (1965).**

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* There was no basis in the record for the court's implied finding that a substantial number of druggists illegally substitute or mislabel. See pp. 9 and 10, *supra.*

** In *Smith* v. *Chanel, Inc., supra,* Chanel claimed that the defendants were placing their copy of Chanel No. 5 in the hands of unscrupulous dealers who might deceive consumers to buy the defendants' copy as plaintiff's original. The Court acknowledged that possibility, but held that the defendants "have done all that could reasonably be done to avoid confusion" by properly labeling their copy of Chanel No. 5, and by selling it as a copy rather than as the original. "The speculative possibility of deliberate fraud by third persons is not a sufficient basis for relief." 402 F.2d at 570.

The Second Circuit held Ives entitled to relief by expanding the doctrine of contributory trademark infringement to include instances where a defendant could "reasonably anticipate" illegal activity by a third party. This unwarranted expansion of the doctrine opens the door to a multitude of lawsuits against copiers who do no more than the defendants did in this case: legally copy an unpatented, uncopyrighted article and inform retailers of the availability of the copy at a lower price. The new doctrine of contributory trademark infringement is based on "reasonable anticipation" of possible wrongdoing by a third party and not on any suggestion to, complicity with, or knowledge of the wrongdoer. Obviously such a rule will have a chilling effect on competition by holding copiers liable for the wrongdoing of others despite the fact that the copiers did nothing except sell their copies at a lower price than the originals.

b. The Remedy of Granting a Color Monopoly

Not only did the Second Circuit dangerously expand the doctrine of contributory trademark infringement to find liability where none should exist, it also fashioned a Draconian remedy which hobbles the defendants in their attempt to compete with Ives.

The result of the Second Circuit's decision was, in the words of Judge Nickerson on remand, "to grant a permanent injunction giving plaintiff a monoply over the colors blue and a combination of blue and red for capsules of the same shape and size as those used by plaintiff to sell Cyclospasmol." *Ives* V, (Pet. App. 98a)

The Second Circuit found that the defendants violated Section 32 of the Lanham Act only (15 U.S.C. Sec. 1114). This section prohibits only the use of another's trademark. Thus the defendants have been found to be contributory infringers only with respect to those druggists who placed generic cyclandelate in a bottle and used a label on that bottle containing Ives' trademark, Cyclospasmol. Considering that there was no evidence of any direct suggestion or encouragment by the defendants for a druggist to mislabel the generic compound with the Ives' trademark, the Second Circuit, by requiring an injunction prohibiting the defendants from using Ives' colors, went far beyond anything previously sanctioned by this Court. In *William R. Warner & Co.* v. *Eli Lilly & Co., supra,* the Court found that the Warner salesmen had suggested substituting Eli Lilly's product for Warner's. Despite such evidence, the Court reversed the injunction granted by the Court of Appeals prohibiting Warner from using chocolate in its product, and held that Lilly was entitled only to an injunction prohibiting illegal suggestions by salesmen, a requirement that the Warner label be distinctive from Lilly's and that the label state "affirmatively that the preparation is not to be sold or dispensed as Coco-Quinine (Lilly's product), or to be used in filling prescriptions or orders calling for the latter." 265 U.S. 532-33, 44 S. Ct. at 618. Nevertheless, the Second Circuit, on a far less compelling record than the Supreme Court had before it in the *Warner* case, has held that because some druggists illegally substitute and mislabel the generic compound with Ives' trademark, the defendants must be enjoined from making cyclandelate capsules in the same color as Ives'.

Ives' proof of contributory infrigement was undeniably flimsy: a nationwide shopping investigation, conducted by Ives' employees with no attempt at fairness, involving only druggists Ives knew had a propensity for illegal substitution, uncovered merely 15 instances of that practice; a survey of 83 pharmacies in New York State disclosed only ten instances of mislabeling and only one instance of overcharging a consumer; and no direct evidence of defendants suggesting, or knowledge of, illegal substitution or mislabeling. On this record, the Second Circuit fashioned an extraordinary remedy, granting Ives the exclusive right to use certain colors in connection with an unpatented product—although the colors had no trademark status and were found to be functional by the trial court, and despite the availability of other remedies such as criminal sanctions against the offending druggists (New York Education Law, §6816 [1] [a]) or labeling requirements such as those imposed by this Court in the *Warner* case, *supra*. These limited remedies would not impede competition or prevent patients from obtaining the product in familiar and useful colors at the lower generic price. Instead, the Second Circuit granted relief which courts have consistently refused; it granted Ives a monopoly over colors used in connection with a product which all drug manufacturers and wholesalers are free to sell.

It is submitted that the Second Circuit arrived at this mischievous result by expanding and misusing the doctrine of contributory trademark infringement. This new and dangerously broad interpretation of contributory trademark infrigement should not be allowed to stand as precedent for future decisions of the federal courts.

Conclusion

The judgment of the United States Court of Appeals for the Second Circuit (*"Ives IV"*) appealed from herein should be reversed.

Respectfully submitted,

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